

**MEMORANDUM**

October 31, 2007

**TO:** Chairman Cox  
**FROM:** Nelson Egbert *NE*  
**SUBJECT:** Semi-annual report

Attached is the Office of Inspector General's semi-annual report for the second half of fiscal year 2007.

Attachment

cc: Diego Ruiz

# Securities and Exchange Commission

## Office of Inspector General

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### Executive Summary

*During this period (April 1, 2007 to September 30, 2007), the Office of Inspector General (OIG or Office) issued one audit report, two inspection report, and three investigative memoranda on management issues. The Office also completed one special project and one survey.*

*The Office reviewed contract ratifications, investment company filing initiatives, the electronic documents program, an interactive data initiative, information security under the Federal Information Security Management Act (FISMA), verification of bar membership, ethics training and exit procedures for examiners, and document requests to registrants. The Audit Program section below provides more details on our completed and ongoing work.*

*The Office's investigative program focused on investigating allegations of misconduct by Commission staff, including allegations of conflict of interest, misuse of official time and computer resources, investigative misconduct, retaliatory termination, perjury and false statements, and time and attendance abuse. We closed seven investigations during the period, referring one subject to Commission management and three subjects to the Department of Justice (which declined prosecution). Sixteen investigations remained pending at the end of the period. The Investigative Program section below contains additional information concerning the investigative work performed and describes the significant cases closed during the period.*

*We are removing one previously reported significant problem (IT management) and retaining another previously reported significant problem (staff performance management).*

*Our Office has reported information technology management as a significant problem since 1996. Over the last decade, the Commission has implemented numerous corrective actions to address the problem. In our judgment, IT management as a whole is no longer a significant problem, although it remains a management challenge.*

*We reported the Commission's management of staff performance as a significant problem in our previous semi-annual report. During this period, Commission management took several steps towards implementation of a new, five-level performance management program, and further steps are planned. These steps are described below in the Significant Problems section.*

*No management decisions were revised during the period. The Office of Inspector General agrees with all significant management decisions regarding audit recommendations.*

# Audit Program

The reviews completed during this period are summarized below, based on the type of review (i.e., audit, inspection, survey, special project, investigative memorandum). A summary of our ongoing work follows the description of completed work.

## AUDIT

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### Investment Company Filing Initiatives (No. 421)

We reviewed whether the Division of Investment Management (IM) had identified its goals for improving mutual fund disclosure, and the extent to which it was achieving these goals.

We found that IM had identified goals and was making progress towards the goals. We recommended that IM identify outcome-based performance indicators for its disclosure reform initiatives.

## INSPECTION

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### Electronic Documents Program (No. 428)

We performed a follow-up review of a program to electronically image the Division of Enforcement's evidentiary documents.

We found that significant improvements had been made to address technical, quality control, and staffing issues identified in our prior review (Memorandum No. 38, issued September 13, 2004). We recommended additional improvements, including providing more guidance and training to users, enhanced monitoring of contractor performance, considering designation of a program manager, and ensuring that background investigations are performed on contractor employees and that contractors sign non-disclosure agreements.

### Contract Ratifications (No. 430)

We reviewed contract ratifications (management approval of unauthorized commitments of funds) to identify additional controls needed to prevent such ratifications.

We found that Commission management had already made considerable effort to increase awareness of this issue and to discourage unauthorized commitments. We made several recommendations to enhance this effort, including (1) strengthening existing guidance, (2) examining contracting in the regional offices, (3) adopting best practices, and (4) implementing additional controls to increase accountability for unauthorized commitments.

## **SURVEY**

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### Interactive Data Initiative Survey (No. 429)

We performed a survey of the Commission's initiative to assess the benefits of interactive data and its potential for improving the timeliness and accuracy of financial disclosure and analysis of Commission filings. We gathered background information on the project for audit planning and identified possible risks to the project.

Since this was a survey, we did not issue a report. Instead, we briefed management on the survey results, including the identified risks.

## **SPECIAL PROJECT**

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### FISMA 2007

We hired a contractor to assist us in evaluating Commission compliance with the Federal Information Security Management Act (FISMA). Rather than issuing a report, we completed a questionnaire required by the Office of Management and Budget.

Consistent with our FISMA work in 2006, we found that the Commission has continued to make progress in developing a mature information security program, and has addressed many security vulnerabilities identified in prior assessments.

## **INVESTIGATIVE MEMORANDA**

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### Verification of Bar Membership (G-454)

During an investigation, we learned that bar membership is not routinely verified for new hire attorneys, but only for law clerks who pass the bar and are converted to attorney positions.

We recommended that the Office of Human Resources improve its controls to ensure bar membership is verified before a new attorney begins work at the Commission.

### Examiner Ethics Training and Exit Procedures (G-460)

During an investigation, we learned that some examiners may not have received ethics training, including training on the rules for negotiating and accepting employment with the Self-Regulatory Organizations (SRO).

We recommended that the Offices of Compliance Inspections and Examinations (OCIE) and the General Counsel provide appropriate training to examiners and to ethics liaisons who advise examiners. We also recommended that OCIE revise the exit interview worksheet for examiners to cover acceptance of SRO employment.

### Document Requests to Registrants (G-449)

During an investigation, we learned that a regional office did not have written guidance for issuing letters to registrants when the registrants fail to produce documents requested during examinations. The regional office issued a “failure to produce” letter to a registrant that later was rescinded. The letter mentioned the possibility of a referral to the Division of Enforcement.

We recommended that the Office of Compliance Inspections and Examinations (OCIE) issue guidance on informing registrants of a possible or actual referral to Enforcement. We also recommended that the guidance be included in OCIE’s training for examiners.

## **ONGOING WORK**

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At the close of this semi-annual period (September 30, 2007), the Office had ongoing reviews of service level agreements in an IT contract, receiver oversight, referrals from the Division of Corporation Finance to the Division of Enforcement, background investigations, the internal website of the Division of Investment Management, a physical security issue, and Self-Regulatory Organization rulemaking.

## **Investigative Program**

Seven investigations were closed during the period. We referred three subjects to the Department of Justice, which declined prosecution. One subject was referred to Commission management, which decided to take no disciplinary action. One subject of an investigation closed during the period resigned. One subject referred during a prior period was suspended. Sixteen investigations were pending at the end of the period.

At our request, investigative staff from the Office of the Inspector General of the Federal Deposit Insurance Corporation (FDIC OIG) conducted one of the investigations closed during the period, due to our need for additional investigative resources. We appreciate the assistance provided by the FDIC OIG.

The most significant cases closed during the period are described below.

## **CONFLICT OF INTEREST**

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Two investigations closed during the period involved allegations of conflict of interest. In one matter, an Office investigation developed evidence that a Commission examiner negotiated and accepted employment with an entity that had a financial interest in an examination in which the examiner personally and substantially participated while negotiating and accepting employment. We found no evidence, however, that the examiner gave any favorable treatment to the entity in the examination. We referred the matter to the Department of Justice, which declined prosecution. As discussed in the Audit Program

section, we made recommendations to management for improvements in examiner ethics training and exit procedures.

In the other matter, the FDIC OIG at our request investigated allegations that a Commission employee secretly assisted a private company with its SEC filings and had been promised a future position on the company's board and stock. The FDIC OIG found that the employee had received and declined an employment offer, but found insufficient evidence that the employee improperly assisted the company or that the company had gained any unfair advantage. The Department of Justice declined to open a case in the matter.

## **MISUSE OF COMPUTER RESOURCES**

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An Office investigation developed evidence that a staff member had used his Commission computer and official time to access numerous Internet websites containing pornography. We also found evidence that the employee had downloaded large quantities of pornographic images to his Commission computer and saved many of these images to CDs and/or DVDs. The employee resigned prior to our completion of the investigation. We provided selected images to the Federal Bureau of Investigation's Innocent Images National Initiative for analysis as possible child pornography. After analyzing the images, the FBI declined to pursue the matter.

## **INVESTIGATIVE MISCONDUCT**

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The Office conducted two investigations into allegations of misconduct during Commission enforcement investigations. In one of these matters, it was alleged that a Commission attorney misled the Commission regarding the facts of an investigation and improperly attempted to influence the testimony of witnesses. The other matter involved allegations that a Commission attorney had subpoenaed an individual's financial records in retaliation for his prior complaint about the conduct of a Commission examiner, and that the attorney filed false statements in federal court in support of that subpoena. In both matters, we found that the evidence did not substantiate the allegations.

## Significant Problems

No new significant problems were identified during the reporting period.

### Significant Problems Identified Previously

#### INFORMATION TECHNOLOGY MANAGEMENT

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Since April 1996, we have reported information technology (IT) management as a significant problem based on weaknesses identified by several audits, investigations, and management studies. Significant IT management weaknesses included information systems security, IT capital investment decision-making, administration of IT contracts, IT project management, enterprise architecture management, strategic management of IT human capital, and management of software licenses.

Since this problem was identified, the Commission has taken numerous actions to improve IT management, as reflected in our prior semi-annual reports. We no longer consider IT management taken as a whole to be a significant problem, although it remains a management challenge (in view of IT's significance and the need for further improvements).

#### STAFF PERFORMANCE MANAGEMENT

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In the prior semi-annual period, the Office identified a significant problem with the Commission's staff performance management system. The Commission plans to adopt a new performance management program to address the deficiencies, starting with managers in fiscal year 2008 and continuing with staff in fiscal year 2009.

The Office of Human Resources (OHR) indicated that it is developing a new, five level performance management program for the Commission. Among other steps, it has piloted the new program with all OHR staff, developed training materials, conducted two pilot training sessions for managers, and drafted a performance management policy. Planned additional steps include completing development of web-based training, developing performance management templates for offices and divisions, and building an infrastructure for training employees.

## Access to Information

The Office of Inspector General has received access to all information required to carry out its activities. No reports to the Chairman, concerning refusal of such information, were made during the period.

## Other Matters

### EXTERNAL COORDINATION

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The Office actively participates in the activities of the Executive Council on Integrity and Efficiency (ECIE). The Acting Inspector General attends ECIE meetings and is a member of its Financial Institutions Regulatory Committee.

The Deputy Inspector General is a member of the Federal Audit Executive Council (FAEC). The FAEC considers audit issues relevant to the Inspector General community.

The Counsel to the Inspector General is a Vice-Chair of the PCIE Council of Counsels and the Associate Counsels are members of the Council. The Council considers legal issues relevant to the Inspector General community.

### RETIREMENT OF INSPECTOR GENERAL

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The Office's Inspector General, Walter Stachnik, retired during this semi-annual period. Mr. Stachnik served as the Office's Inspector General since the Office was established in March 1989.

As of the date of this report, a permanent replacement for Mr. Stachnik had not yet been appointed. The Deputy IG is currently serving as the Acting Inspector General.

## Questioned Costs

		DOLLAR VALUE (IN THOUSANDS)		
		<u>NUMBER</u>	<u>UNSUPPORTED COSTS</u>	<u>QUESTIONED COSTS</u>
A	For which no management decision has been made by the commencement of the reporting period	0	0	0
B	<i>Which were issued during the reporting period</i>	<u>0</u>	<u>0</u>	<u>0</u>
	Subtotals (A+B)	0	0	0
C	For which a management decision was made during the reporting period	0	0	0
	(i) Dollar value of disallowed costs	0	0	0
	(ii) Dollar value of costs not disallowed	0	0	0
D	For which no management decision has been made by the end of the period	0	0	0
	Reports for which no management decision was made within six months of issuance	0	0	0

## Recommendations That Funds Be Put To Better Use

		<u>NUMBER</u>	<u>DOLLAR VALUE (IN THOUSANDS)</u>
A	For which no management decision has been made by the commencement of the reporting period	0	0
B	Which were issued during the reporting period	<u>0</u>	<u>0</u>
	-		
	Subtotals (A+B)	0	0
C	For which a management decision was made during the period	0	0
	(i) Dollar value of recommendations that were agreed to by management	0	0
	- Based on proposed management action	0	0
	- Based on proposed legislative action	0	0
	(ii) Dollar value of recommendations that were not agreed to by management	0	0
D	For which no management decision has been made by the end of the reporting period	0	0
	Reports for which no management decision was made within six months of issuance	0	0

## **Reports with No Management Decisions**

Management decisions have been made on all audit reports issued before the beginning of this reporting period (April 1, 2007).

## **Revised Management Decisions**

No management decisions were revised during the period.

## **Agreement with Significant Management Decisions**

The Office of Inspector General agrees with all significant management decisions regarding audit recommendations.

MANAGEMENT RESPONSE OF  
THE SECURITIES AND EXCHANGE COMMISSION  
ACCOMPANYING THE SEMIANNUAL REPORT OF THE INSPECTOR GENERAL  
FOR THE PERIOD APRIL 1, 2007 THROUGH SEPTEMBER 30, 2007

## Introduction

The Semiannual Report of the Inspector General of the Securities and Exchange Commission (SEC) was submitted to the Chairman on October 31, 2007 as required by the Inspector General Act of 1978, as amended. The report has been reviewed by a member of the Executive Staff, as well as the Executive Director, General Counsel, and Director of the Division of Enforcement. The Management Response is based on their views and consultation with the Chairman.

The Management Response is divided into four sections to reflect the specific requirements listed in Section 5(b) of the Inspector General Act of 1978, as amended.

### Section I Comments Keyed to Significant Sections of the IG Report

#### A. Audit Program

During the reporting period, the Office of Inspector General (OIG) issued one audit report, two inspection reports, and three investigative memoranda on management issues. The Office also completed one special project and one survey. Management generally concurred with the findings and recommendations in the OIG's reports.

In addition to audits performed by the OIG, the Government Accountability Office (GAO) actively reviewed program and administrative functions of the SEC. A complete listing of all GAO audit activity involving the SEC is attached as Appendix A.

#### B. Response to Significant Problems

No new significant problems were identified.

#### C. Response to Significant Problems Previously Identified

##### *Performance Management Program*

The OIG identified the SEC's performance management system as a significant problem previously reported. The SEC is currently engaged in an initiative to implement a completely new performance management process. This initiative began in 2005 when the pay and benefits agreement with the National Treasury Employees Union (NTEU) expired. The SEC and the NTEU negotiated on this and other issues throughout 2005 and 2006 and were unable to reach consensus on the pay for performance elements of the performance management process. The parties went to mediation and ultimately, a ruling from the

Federal Services Impasse Panel (FSIP) issued in October 2006 allowed the SEC to begin implementing the new system.

In designing the new system, the SEC researched all available guidance regarding performance management system design from the Office of Personnel Management (OPM), Office of Management and Budget, and Government Accountability Office. The SEC also completed an extensive review of best practices in both the government and private sectors. The existing performance management system was submitted to OPM for review using the Performance Appraisal Assessment Tool (PAAT) to identify current weaknesses and to plan improvements. The SEC has also created a joint committee with NTEU to make recommendations. After the design of the new system was completed, the design was submitted to OPM for the PAAT review to ensure design effectiveness.

The new system has three major components: (1) an objective component where specific measurable objectives for each individual are established at the beginning of the performance cycle; (2) a competency component where the underlying knowledge, skills, and behaviors needed to accomplish performance objectives are evaluated; and (3) a development component where employees and managers identify career development opportunities. The timing of the performance cycle also will be adjusted in the new system to align with the fiscal year.

In preparation for implementing this new system, the SEC piloted the system for one year in the agency's Office of Human Resources (OHR). This pilot program included periodic focus group discussions with a third-party contractor, after the initial training, at the six-month point and is scheduled to be concluded with a final focus group discussion when the performance cycle ends at the end of the fiscal year. During these focus groups, select employees were asked to provide feedback on the effectiveness of the new system. At the six-month point, adjustments were made to the system based on this feedback.

In preparation for the agency-wide rollout, two groups of senior executives and managers were presented with the training associated with the system. Improvement feedback was solicited from this group and the training design is being finalized.

In fiscal year 2008, the SEC plans to implement the new system with all executives and managers. In fiscal year 2009, it is anticipated that all SEC employees will be covered by the new system.

D. IG Recommendations Concerning Use of Funds

None.

E. Reports with No Management Decisions

Management decisions have been made on all audits issued prior to the beginning of the reporting period (April 1, 2007).

F. Revised Management Decisions

No management decisions were revised during the reporting period.

SEC Management Response to  
Semiannual IG Report  
April 1, 2007 – September 30, 2007

SECTION II  
Disallowed Costs  
As of September 30, 2007

	<u>Number</u>	<u>Dollar Value (in thousands)</u>
A. For which final action has not been taken by the commencement of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	<u>0</u>	<u>\$0</u>
(Subtotal A+B)	0	\$0
C. For which final action was taken during the reporting period	0	\$0
(i) Recovered by management	0	\$0
(ii) Disallowed by management	0	\$0
D. For which no final action has been taken by the end of the reporting period	0	\$0

SEC Management Response to  
Semiannual IG Report  
April 1, 2007 – September 30, 2007

SECTION III  
Funds Put to Better Use  
As of September 30, 2007

	<u>Number</u>	<u>Dollar Value (in thousands)</u>
A. For which final action has not been taken by the commencement of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	0	\$0
C. For which final action was taken during the reporting period:		
(i) Dollar value of recommendations that were agreed to by management	0	\$0
(ii) Dollar value of recommendations that management has subsequently concluded should/could not be implemented or completed	0	\$0
D. For which no final action has been taken by the end of the reporting period	0	\$0

SECTION IV  
Open Audit Reports Over One Year Old  
As of September 30, 2007

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
220	IRM Planning and Execution	3/26/1996	\$0	\$0	Efforts are underway to complete the IT Policy Library, a web-based tool that contains IT-related policies and guidance. The target completion date is March 31, 2008.
320	General Computer Controls	12/26/2000	\$0	\$0	The overall recommendation is centered around the on-boarding and off-boarding of staff and contractors. A pilot system is in production, and full deployment is being coordinated with the HSPD-12 government-wide initiative. In addition, revisions have been made to the SEC's systems security plans to address this requirement, as well as other NIST security standards, at the application level.

SECTION IV  
Open Audit Reports Over One Year Old  
As of September 30, 2007

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
337	IT Project Management	1/24/2002	\$0	\$0	Formal policies are being completed.
365	IT Capital Investment Decision-making Follow-up	3/29/2004	\$0	\$0	During the reporting period, a formal charter was issued for the IT Capital Planning Committee, which makes final investment funding decisions based on, among other things, recommendations from the SEC's Information Officers' Council (IOC). A formal charter is now being developed for the IOC.
376	Telephone Card Program	11/17/2003	\$0	\$0	See explanation for audit #220.

SECTION IV  
Open Audit Reports Over One Year Old  
As of September 30, 2007

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
377	Lost and Stolen Securities Program	3/31/2004	\$0	\$0	Management has scheduled a full risk assessment of the program's database.
393	Software Management	3/24/2005	\$0	\$0	A working group has been established to develop specific procedures and policies recommended by this audit. In the meantime, an interim policy has been issued.
395	Integrity Program— Inspection of Field Offices	5/31/2005	\$0	\$0	Revisions are expected to be made to the draft employee handbook.

SECTION IV  
 Open Audit Reports Over One Year Old  
 As of September 30, 2007

<u>Audit #</u>	<u>Audit Title</u>	<u>_____</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
402	Office of the Secretary	9/20/2005	\$0	\$0	Staff is analyzing data from a needs assessment completed during the reporting period to help determine how to meet the OIG's audit recommendations. In addition, a policy is being developed to address the updating and posting of public forms on the SEC's website.
	Issued				
406	Federal Information Security Management Act—2005	9/28/2005	\$0	\$0	Most of the recommendations have been implemented. With regard to the one remaining recommendation, Privacy Impact Assessments are underway for all applications with an expected completion date of March 2008.

SECTION IV  
Open Audit Reports Over One Year Old  
As of September 30, 2007

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
408	IM Exemptive Application Processing	9/29/2006	\$0	\$0	Work is underway to determine whether and how the Commission's rule pertaining to employee securities companies should be updated.
412	Oversight of PCAOB	9/28/2006	\$0	\$0	A number of procedures will need to be developed as the Commission's oversight of the PCAOB matures. The staff has begun developing procedures by drafting a proposed rule on the PCAOB's budget approval process.

SECTION IV  
 Open Audit Reports Over One Year Old  
 As of September 30, 2007

<u>Audit #</u>	<u>Audit Title</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
425	FISMA 2006  Issued 9/18/2006	\$0	\$0	Remaining actions evolve around evaluating the reclassification of the inventory of applications, improving the processes for documenting applications and systems, and conducting Privacy Impact Assessments for the full inventory of systems and applications.
PI-6-17	Workplace Violence Prevention Program  3/27/2006	\$0	\$0	An updated policy is being drafted. After the policy is approved and communicated to staff, training sessions will commence.

SECTION IV  
 Open Audit Reports Over One Year Old  
 As of September 30, 2007

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
M27	NRSI Password Management		\$0	\$0	The streamlining and automation of SEC's process for requesting, validating, granting, and revoking user access to the agency's IT systems is being addressed by the Federal Identity Management project.
		1/29/2003			

## APPENDIX A

### Government Accountability Office Audit Activity Involving the Securities and Exchange Commission

#### Reports Issued During the Reporting Period

*Internal Control: Improvements Needed in SEC's Accounting and Operational Procedures*, GAO-07-482R, Apr. 3, 2007

*Financial Regulators: Agencies Have Implemented Key Performance Management Practices, but Opportunities for Improvement Exist*, GAO-07-678, June 2007

*Defined Benefit Pensions: Conflicts of Interest Involving High Risk or Terminated Plans Pose Enforcement Challenges*, GAO-07-703, June 2007

*Credit Derivatives: Confirmation Backlogs Increased Dealers' Operational Risks, but Were Successfully Addressed after Joint Regulatory Action*, GAO-07-716, June 2007

*Corporate Shareholder Meetings: Issues Relating to Firms that Advise Institutional Investors on Proxy Voting*, GAO-07-765, June 2007

*Securities and Exchange Commission: Additional Actions Needed to Ensure Planned Improvements Address Limitations in Enforcement Division Operations*, GAO-07-830, Aug. 2007

*Securities and Exchange Commission: Steps Being Taken to Make Examination Program More Risk-Based and Transparent*, GAO-07-1053, Aug. 2007

#### Projects Active as of September 30, 2007

1. Federal Entity Governance Structures (194737). A review of the governance structure at designated federal entities and the inspector general's role and reporting relationship with the governance structures.
2. IRAs (130799). A review of the role and effectiveness of IRAs in facilitating retirement savings.
3. Private Equity Markets (250358). A review of private equity markets and the current state of supervision and regulation.
4. U.S. Pension Plan Investment in Hedge Funds (130664). A review focused on the extent public and private sector pension plan sponsors invest in hedge funds and the net returns of these funds relative to other types of investments.

5. Currency Transaction Reports (250329). A study of the currency transaction report filing patterns of depository institutions, the regulatory burden, if any for depository institutions in meeting filing requirements, how currency transaction reports have been useful to law enforcement and other users, and the options, if any, that exist for changing currency requirements.
6. Home Mortgage Foreclosures (250347). A review of recent trends in home mortgage foreclosures, the primary and secondary mortgage markets, and possible options for mortgage market participants, financial regulators, and policymakers in responding to recent foreclosure trends.
7. SEC Oversight of SROs (250326). A review of the SEC's oversight of self-regulatory organizations and its inspection and examination process.
8. Institution Diversity and Consolidation (250328). A study regarding the diversity and complexity of the banking and financial services industries, the current regulatory structure for these industries, and the costs associated with regulatory compliance.
9. Competition in the Accounting Profession (250321). An examination of recent changes in the market for public company auditors, recent changes in the level of competition in the market and auditor choices for public companies, trends in audit costs and quality, the impact of concerns over access to capital formation and securities markets on companies' choice of auditors, and challenges faced by mid-sized and smaller auditing firms in serving the market for audit and other services to public companies.
10. Hedge Funds and SEC Oversight (250313). A review of the evolution of the hedge fund industry in terms of growth, investment strategies and fee structures; SEC oversight of hedge funds and financial regulators' oversight of counterparties; disclosure requirements; potential implications of ERISA amendments related to hedge funds; and the applicability of legislative reforms suggested by the President's Working Group after Long-Term Capital Management.
11. SEC Oversight of Corporate Governance Ratings (250312). A review of the SEC's oversight of firms that provide proxy advisory services and corporate governance ratings.
12. Credit Derivatives (250310). A review of the use of information technology systems in the credit derivatives markets.
13. Financial Markets Preparation Follow-on (250285). A review of the progress made by U.S. financial regulators and market participants to increase their security and

resiliency against attacks or other disasters, as well as to follow-up on issues and recommendations made from GAO's prior reports.

14. Financial Statement Audit (194571). An audit of the SEC's 2006 financial statements.
15. Utility Oversight (360719). A study of FERC's efforts to assume responsibilities for protecting consumers and investors previously under the jurisdiction of the SEC.
16. Energy Futures (250256) and Natural Gas Prices (360659). The first assignment is a review of the CFTC's oversight of futures trading in energy. The second assignment is a review of the factors that affect natural gas price volatility and the Federal Government's role in ensuring that prices are determined in a competitive market. GAO's discussions with SEC concern the SEC's equities market surveillance, staff report entitled, "Implications of the Growth of Hedge Funds in September 2003," and how the role played by hedge funds in the financial markets has changed.